Hawker Siddeley Canada LTD./1972 Annual Report

Contents

2 Directors and Executive Management
3 Financial data in brief
4 To the shareholders
4 Sales
4 Income
4 Extraordinary items and net income
4 Dividends
4 Comments
5 Comments on operations
5 Hawker Siddeley Canada Ltd.
6 Hawker Industries Limited
7 Orenda Limited
7 Canadian General Transit Company, Limited
8 Auditors' Report
9 Consolidated statement of income
9 Consolidated statement of retained earnings
10 Consolidated balance sheet
12 Consolidated statement of source and application of working capital
13 Notes to consolidated financial statements
15 Divisions, subsidiaries, products and services

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 25th, 1973 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular, and a proxy form for the convenience of those shareholders holding common shares, are enclosed with this report.

Hawker Siddeley Canada Ltd.

Head Office
7 King Street East,
Toronto, Ontario,
M5C 1A3

Directors
A.A. Bailie, Toronto, Ontario
R.S. Faulkner, Toronto, Ontario
Sir Arnold Hall, London, England
R.R. Kenderdine, London, England
A.J. Laurence, London, England
A.W. McKenzie, Montreal, Quebec
A.S. Pattillo, Q.C., Toronto, Ontario
K.L. Phillips, London, England
K.N. Slade, Aylesbury, England
R.G. Smith, Halifax, Nova Scotia
Colin W. Webster, Montreal, Quebec

Executive Management
Sir Arnold Hall, Chairman
R.R. Kenderdine, Vice-Chairman
A.S. Pattillo, Q.C., Vice-Chairman
R.S. Faulkner, President and Chief Executive Officer
A.A. Bailie, Vice-President, Finance, and Treasurer
I.E. Bull, Vice-President and Comptroller
M.E. Davis, Vice-President (President and Chief Executive Officer, Orenda Limited)
A.W. McKenzie, (Chairman and President, Canadian General Transit Company, Limited)
J.G. Mitchell, Vice-President (Trenton Works Division)
L.A. Mitten, Vice-President (Canadian Car (Pacific) Division)
J.H. Ready, Vice-President and Secretary
E.J. White, Vice-President (Canadian Steel Wheel Division)

Auditors
Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent
National Trust Company, Limited, Toronto, Montreal, Winnipeg and Vancouver

Financial Data in Brief

(in thousands of dollars except per share data)	1972	1971
Consolidated net sales	209,398	158,238
Interest expense	4,055	3,985
Depreciation	7,923	7,469
Income from operations before taxes	8,881	4,723
Income taxes	4,916	2,116
Income of subsidiaries attributable to minority shareholders	881	665
Income before extraordinary items	3,084	1,942
Extraordinary items—		
Income tax provision not required	433	312
Exchange loss	(216)	—
Net income for the year	3,301	2,254
Earnings per share:		
Per preferred share—		
before extraordinary items	22.03	13.87
after extraordinary items	23.58	16.10
*Per common share—**		
before extraordinary items	.28	.14
after extraordinary items	.31	.18
Dividends paid:		
Preferred	805	2,013
Common	568	—
Per preferred share	5.75	14.37½
Per common share	.07	—
Item credited (net) to retained earnings	—	1,895
Working capital	31,390	32,536
Capital expenditures	7,544	7,901
Shareholders' equity	82,770	80,843

**after preferred dividend requirements*

To the Shareholders:

Your directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1972.

Sales

Consolidated sales for the year were $209 million (1971 : $158 million).

Income

Income from operations before income taxes amounted to $8,881,160 (1971 : $4,723,314).

Income after providing for income taxes and interests of minority shareholders amounted to $3,083,626 (1971 : $1,941,857). This is equivalent to 28 cents per share (1971 : 14 cents) on the 8,117,341 outstanding common shares of the Company.

Extraordinary Items and Net Income

(1) Devaluation of the Pound Sterling during the year resulted in a downward adjustment to the dollar value of the net assets of the Company's United Kingdom subsidiaries, which is recorded as an extraordinary item of expense in the amount of $216,203.

(2) Income in the amount of $433,143 arising from utilization of losses of prior years not recognized in the provision made for income taxes has been recorded as an extraordinary item of income.

Net income, after extraordinary items above, is $3,300,566 (1971 : $2,253,556). This is equivalent to 31 cents per share (1971 : 18 cents) on the 8,117,341 outstanding common shares of the Company.

Dividends

During 1972 the Company declared and paid the four quarterly cumulative preferred share dividends as they became due. A dividend of 7 cents per share was paid in respect of the common shares to shareholders of record on June 12, 1972.

On March 12, 1973, the directors adopted a policy to pay quarterly common share dividends and, in respect of the first quarter of 1973, declared a dividend of 4 cents per share payable April 16, 1973 to shareholders of record March 30, 1973.

Comments

A stronger domestic market contributed to the improved trading results of most of the operating units, though the results of Canadian Car Division, Thunder Bay, Ontario, were adversely affected by production problems experienced on a contract for rapid transit cars completed during the year. This year's results of Hawker Industries Limited (99% owned) were significantly better and its divisions engaged in shipbuilding and the manufacture of transportation equipment were particularly active.

At mid year the Company acquired the 50% shareholding in Montreal based Canadian Steel Wheel Limited which was previously owned by British Steel Corporation. This company accordingly became wholly-owned and since September has been operating as a Division of Hawker Siddeley Canada. This has contributed to the improvement in consolidated sales and earnings. The acquisition also gives opportunity for some rationalization between the activities of Canadian Steel Wheel and the adjacent Canadian Steel Foundries which should benefit future operations.

Three major labour agreements were concluded during the year by Canadian Steel Foundries, Canadian Steel Wheel and Orenda Limited. All operations finished the year without material disruption.

During the year Mr. R. R. Kenderdine succeeded Mr. A. S. Kennedy as a director and Vice-Chairman.

The directors wish to record their thanks to those whose efforts have contributed to the improved results.

With market conditions remaining strong, the Company is looking to an active year and further improvements in trading results. Comments on the various operations of the Company are contained in the next section of this report.

Submitted on behalf of the Board

A.A. HALL
R.S. FAULKNER

Toronto, Ontario
March 27, 1973

Comments on Operations

HAWKER SIDDELEY CANADA LTD.

Canadian Car (Pacific) Division

Greater demand for lumber in both domestic and U.S. markets resulted in increased sale of sawmill equipment manufactured by the Division, and improved earnings.

Chip-N-Saw, Inc., a wholly-owned subsidiary established late in 1971 in the United States to market and service equipment in that country, showed encouraging results after its first full year of operation. Plans are being developed for this company to manufacture certain items of equipment and components in the U.S.

Research and development programs were actively pursued by the Division during the year to ensure that current leadership in the market is maintained. The successful conclusion of one such program was the introduction of the first computer-controlled, fully automatic, quad-band Chip-N-Saw machine for processing logs up to 20 inches in diameter.

The Division enters 1973 with a good order book position and an encouraging market outlook.

Canadian Car Division

During 1972 the pulp and paper industry in North America showed signs of emerging from a long recession. As a result, market conditions for the Division's woodland equipment in both U.S. and domestic sectors improved and the total sales volume was appreciably higher than in the previous year.

Demand in other foreign markets, particularly South East Asia, did not show a similar advance and Canadian Car Pte. Limited, a Singapore-based wholly-owned subsidiary, did only a modest level of business.

Production and sales of highway trailers continued at the high level established in 1971. However, competition in this product remains stiff and profitability was unsatisfactory.

The manufacture of electric overhead travelling cranes was introduced as a new product line and three units were delivered during the year.

Railway passenger car business at the Division's Thunder Bay, Ontario, plant was very active and the contract for 46 air-conditioned rapid transit cars for the Port Authority Trans-Hudson Corporation of New York was completed. Serious production problems were encountered in the manufacture of these cars, adversely affecting the results of the Division. During the year, an order for 30 coaches for GO Transit was received and there is encouraging activity in the domestic market for rapid transit equipment. Production and administration are in course of reorganization, and progress continues in the overall improvement of this unit's activities. Improved trading results are expected in the forthcoming year.

Canadian Steel Wheel Division

This Division was formerly Canadian Steel Wheel Limited, a company owned jointly with British Steel Corporation. In June 1972, Hawker Siddeley Canada Ltd. acquired the 50% shareholding held by British Steel and since September 29, 1972 has operated the former company as a division. This acquisition gives opportunity for some rationalization between the activities of Canadian Steel Wheel and the adjacent Canadian Steel Foundries, which should benefit the operations.

While sales of railway wheels showed a slight decrease from the previous year, industrial wheel demand strengthened significantly and steel ingot deliveries reached a new high level. These changes resulted in a total sales volume greater than in 1971 and earnings remained at a satisfactory level.

Towards year end, the millionth wheel produced since the start of operations in 1959, was shipped from the plant.

Negotiations for a new labour contract with plant employees was satisfactorily concluded.

Demand for wheels and ingots in 1973 is expected to remain at roughly the 1972 level.

Canadian Steel Foundries Division

The total tonnage of castings poured by the foundry was approximately the same as in 1971. Casting orders for railway applications were higher than for several years but the demand for industrial castings was substantially lower, and taking the Division as a whole, results were lower than last year.

Major castings completed in 1972 included the sixth stainless steel runner for the Churchill Falls hydro-electric power project, a series of large ore crusher castings, carbon steel turbine castings for Brazilian power projects and turbine casings for Ontario Hydro's Bruce generating station.

Completion of the last of a series of special castings for nuclear power installations in the U.S. was in the final stages. The Division is now fully qualified and approved for the production and testing of high grade castings for these applications.

A new research program was introduced with the aim of broadening the Division's activity in the field of high quality and exotic metal castings.

A new three-year labour contract was signed with the union representing plant employees.

In 1973, a high level of activity in railway castings is anticipated together with a strengthening of the market for many types of industrial castings.

HAWKER INDUSTRIES LIMITED (Approx. 99% owned)

Canadian Bridge Division

The prolonged strike by Ontario Hydro employees and delays by other utilities in advancing planned projects resulted in sales made by the Division being lower than anticipated. Though results were unsatisfactory they were, however, better than the preceding year and reflect the benefit of the reorganization of activities.

The tonnage of electric power and micro-wave transmission towers produced was well below plant capacity. Efforts made to increase sales in the U.S. market began to show results and several significant contracts for 1973-74 delivery were received. In addition, domestic projects which had been delayed have now been moved forward and orders connected with these programs were also obtained.

Following the successful conclusion of structural integrity tests, the first power transmission pole of its class in Canada was erected at London, Ontario. This type of structure has been designed as a replacement for conventional hydro towers, particularly in urban areas.

The Division is producing a series of structural designs for ultra-high voltage transmission lines. New high-capacity test facilities are being installed to enable complete design and test programs to be undertaken up to 1½ million volts. These integrated facilities will be the most advanced of their type in North America.

With the increased activity in electric power transmission projects a much improved year is expected for the Division in 1973.

Trenton Works Division

In comparison with the operations of the previous year, which were severely affected by a prolonged strike, the Division's total sales volume and earnings increased significantly in 1972.

Demand for new equipment by the major Canadian railroads was at a relatively low level. However, an order for 700 covered hopper cars from the Canadian Wheat Board contributed appreciably to the year's activity.

Total production at the Division's rail car plant in Trenton, Nova Scotia, reached 1,831 freight and tank cars compared to 1,088 units in 1971. Among completed orders were 310 container flat cars, 300 gondola cars and 150 bi-level flat cars for Canadian National Railways; 410 coal cars for CP Rail; and 50 gondola coal cars for British Columbia Railways. Export shipments included box cars to Zambia, ore cars to Jamaica, and tank cars to Mexico.

Although representing a relatively small part of 1972 production, these export orders mark the initial penetration of overseas markets and the experience gained will be helpful in obtaining further export business.

Railway axle production was higher than in 1971 but the volume of industrial forgings was slightly below the previous year's level.

During the final phase of the major plant rearrangement and modernization program started late in 1969, the major items of work included the completion of a new rail car building track and improvements to steel handling facilities.

The plant continued to fabricate caissons and large tubular structure members for offshore drilling vessels being built by Halifax Shipyards Division. With further work of this type and prospects of increased demand for rail cars, it is anticipated that the Division will have a relatively busy year in 1973.

Halifax Shipyards Division

Sales revenue reached new high levels at both the main construction and repair yard at Halifax and the smaller Dartmouth yard on the opposite side of the harbour and profitability was much improved.

Highlights of the year's activities included the delivery, in the Fall, of the third semi-submersible offshore drilling vessel to be built by the Division. Like its predecessors, the unit is being used in exploration programs off Canada's east coast.

Construction of a fourth offshore unit was well advanced at year end. This vessel is of the same general type as those previously built but is of rectangular instead of triangular configuration. It is scheduled for completion in the Fall of 1973 and subsequent delivery for exploration work in the North Sea.

During the year a contract was received for another unit of this type also destined for service in the North Sea. This order brings to five the total number of these highly specialized vessels completed or under construction by Halifax Shipyards.

Other new vessel construction included two stern trawlers which were delivered to National Sea Products Limited in the second half of the year.

Ship repair work of all types was at a high level throughout the year. At the Dartmouth yard, the volume of repair work reached a record level as already indicated.

To enable the Shipyard to take full advantage of demands arising from developments in exploration and production programs, both in the North Sea and off Canada's east coast, an extensive capital improvement program to upgrade facilities has been approved. This program will extend over a period of three years.

A satisfactory level of work and performance is anticipated in 1973 and future prospects are encouraging.

Dosco Overseas Engineering Limited

An increase in sales volume, compared with the previous year, was again achieved by this United Kingdom-based subsidiary which manufactures mining machinery.

Production levels of most individual types of equipment made by the company also rose and two new types of mining machine were manufactured and put into service.

Fewer complete machines were sold in export markets than in the previous year but spare parts volume was higher.

Preliminary arrangements to establish a sales outlet in the United States were completed. The new company will sell machinery to the U.S. mining industry and provide service support.

Hollybank Engineering Company Limited, a subsidiary company of Dosco Overseas, had a good year despite the adverse effect of the strike in the U.K. coal mining industry, and the prospects of both companies are favourable.

Coal Mining Interests

Final settlement was received on December 18, 1972 for the colliery assets of Hawker Industries Limited expropriated in 1968 by the Cape Breton Development Corporation (Devco). Taking into account interest received on the compensation, a small gain arose on realization of these assets. At year end, Hawker Industries held 26,521 preferred shares of Dominion Coal Company, Limited (Domco) which also received final payment of compensation from Devco. Domco is taking steps to wind up its affairs and to distribute its assets to holders of its issued preferred shares. Further information on this matter is contained in Note 3 to the financial statements.

ORENDA LIMITED (60% owned)

During the year, the company placed considerable emphasis on rationalizing its activities and determining a more reliable base for possible future operations. This program significantly benefitted results in 1972 and a return to profitability is expected in 1973.

The main production effort was placed on jet aircraft engine repair and overhaul work for the Canadian Armed Forces, and work on large components for the Rolls-Royce RB.211 engine program and on Lance missile launchers maintained the heavy machine shop load at a steady level during the year.

Industrial gas turbine units for the United Kingdom Gas Council and Dubai/Conoco in the Persian Gulf were produced and put into service.

Other activities of the company included project engineering and manufacture of parts for nuclear power reactors.

New labour agreements covering a two-year period were satisfactorily concluded.

The company enters 1973 with a good program of work on hand and renewed activity in industrial gas turbine requirements which is encouraging. Orders for industrial gas turbine units have since been received from the United Kingdom and China. An overall improvement in performance is expected.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55% owned)

Market conditions for the company's railway and tank car leasing business remained generally depressed throughout most of the year. However, revenue and earnings from operations remained relatively steady.

The retirement of older equipment was at a lower rate than in previous years. This factor, and the addition of new, larger cars, resulted in a slight increase in the total carrying capacity of the company's fleet.

We are expecting a return of a more active market during 1973 and continuation of the important contribution of this subsidiary to the Company's earnings.

Auditors' Report

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and consolidated subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario, March 23, 1973

Consolidated Statement of Income FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Consolidated net sales (Note 2)	$209,397,869	$158,237,510
Income from operations before the items shown below	$ 19,922,807	$ 15,497,388
Income from investments	936,931	680,312
	20,859,738	16,177,700
Deduct:		
Interest on bank advances	1,250,235	1,098,882
Interest and amortization of costs on long term debt	2,805,080	2,886,247
Provision for depreciation	7,923,263	7,469,257
	11,978,578	11,454,386
Income from operations before income taxes	8,881,160	4,723,314
Provision for income taxes	4,916,000	2,116,095
	3,965,160	2,607,219
Interest of minority shareholders in income of subsidiaries	881,534	665,362
Income before extraordinary items	3,083,626	1,941,857
Income tax provision not required by reason of losses carried forward from prior years after minority interest of $857 in 1972 ($301 in 1971)	433,143	311,699
Exchange loss arising from the freeing of the pound sterling, less income taxes of $29,000 and minority interest of $428	(216,203)	—
Net income for the year	$ 3,300,566	$ 2,253,556
Earnings per share after preferred dividends:		
Before extraordinary items	28¢	14¢
After extraordinary items	31¢	18¢

Consolidated Statement of Retained Earnings FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Retained earnings at beginning of year	$ 7,731,132	$ 5,595,341
Net income for the year	3,300,566	2,253,556
	11,031,698	7,848,897
Provision for special costs and losses in a subsidiary no longer required, after minority interest of $5,256	—	1,894,744
	11,031,698	9,743,641
Dividends – preferred shares	805,019	2,012,509
– common shares	568,214	—
	1,373,233	2,012,509
Retained earnings at end of year	$ 9,658,465	$ 7,731,132

Consolidated Balance Sheet DECEMBER 31, 1972

ASSETS	1972	1971
Current Assets:		
Cash and bank deposits	$ 2,334,445	$ 5,580,106
Short term investments, at cost (approximately market value)	59,400	692,712
Accounts receivable	45,988,487	36,778,964
Inventories at lower of cost and estimated realizable value, less progress payments	42,151,602	41,822,383
Prepaid expenses	962,035	1,053,503
	91,495,969	85,927,668
Investments and Other Assets:		
Coal mining interests (Note 3)	331,514	1,872,718
Investment in associated company	—	4,382,541
Notes due from Sidbec (Note 4)	5,000,000	5,000,000
Debentures of Sidbec – Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited), at cost	3,437,638	3,480,575
Mortgage and other investments	367,705	367,003
	9,136,857	15,102,837
Fixed Assets, at cost:		
Land, buildings, machinery and equipment	210,165,659	201,606,292
Less: Accumulated depreciation	100,241,474	97,054,782
	109,924,185	104,551,510
Unamortized Costs of Long Term Debt	239,877	258,559
	$210,796,888	$205,840,574

LIABILITIES	1972	1971
Current Liabilities:		
Bank advances (Note 5)	$ 19,196,888	$ 15,172,312
Accounts payable and accrued liabilities	31,200,072	28,685,513
Income and other taxes payable	5,183,145	3,852,277
Long term debt due within one year (Note 6)	2,485,547	2,492,936
Due to affiliated companies	2,040,711	3,188,594
	60,106,363	53,391,632
Long Term Debt (Note 6)	36,131,976	41,312,344
Provision for Unfunded Pensions (Note 7)	6,859,404	7,259,058
Deferred Income Taxes	11,117,393	9,133,244
Interest of Minority Shareholders in Subsidiaries	13,811,600	13,901,477
Shareholders' Equity:		
Preferred and common shares (Note 8)	68,279,748	68,279,748
Reserve for contingencies	4,831,939	4,831,939
Retained earnings	9,658,465	7,731,132
	82,770,152	80,842,819
	$210,796,888	$205,840,574

Approved on behalf of the Board :

A.A. Hall, Director

R.S. Faulkner, Director

Consolidated Statement of Source and Application of Working Capital

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Source:		
Net income for the year	$ 3,300,566	$ 2,253,556
Non-cash items included in determination of net income –		
Depreciation	7,923,263	7,469,257
Amortization of costs of long term debt	18,682	25,360
Deferred income taxes	1,984,149	225,142
Income of subsidiaries attributable to minority shareholders	881,963	665,663
Undistributed net earnings of associated company	—	(23,500)
Funds provided from operations	14,108,623	10,615,478
Fixed asset disposals	1,300,736	1,744,095
Partial realization of coal mining interests	1,541,204	—
Proceeds from issue of long term debt	—	3,950,438
Other items	42,235	180,698
	16,992,798	16,490,709
Application:		
Additions to fixed assets	7,544,021	7,901,363
Reduction in long term debt	5,180,368	3,342,704
Reduction in provision for unfunded pensions (Note 7)	399,654	432,855
Dividends paid –		
To shareholders of Hawker Siddeley Canada Ltd.	1,373,233	2,012,509
To minority shareholders of subsidiaries	963,540	481,770
Reduction in working capital on purchase of subsidiary	2,670,112	—
Purchase of shares in partly owned subsidiary	8,300	2,601
Charges to provision for special costs and losses	—	725,000
	18,139,228	14,898,802
(Decrease) increase in working capital	(1,146,430)	1,591,907
Working capital at beginning of year	32,536,036	30,944,129
Working capital at the end of year	$31,389,606	$32,536,036

Notes to Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 1972

1. General Notes and Principles of Consolidation:
The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). The accounts of Domco are not consolidated because that company has ceased operations and is in the process of being wound up (see Note 3).

Investments and long term debt in foreign currencies have been converted at the rates of exchange in effect when the investments were acquired or the obligations incurred, adjusted as appropriate to the rates of exchange expressed in forward foreign exchange contracts. Other accounts in foreign currencies have been converted at rates of exchange prevailing at the year-end.

For comparative purposes, bank term deposits included in short term investments in 1971 have been reclassified to cash and bank deposits.

Current recoveries of a prior year's provision for loss on contracts with Rolls-Royce Ltd. were not significant; accordingly, for comparative purposes, the recovery shown in 1971 has been reclassified as income from operations. This does not change the income before extraordinary items nor the net income reported for 1971.

2. Classes of Business:

	Sales	
	1972	1971
Equipment for the transportation industry	**$ 99,559,030**	$ 72,782,855
Gas turbine power equipment for the oil, gas and aircraft industry and associated services	**26,792,042**	24,564,729
Other general engineering and services	**83,046,797**	60,889,926
	$209,397,869	$158,237,510

3. Coal Mining Interests:

	1972	1971
Shares in subsidiary not consolidated, at cost	**$ 331,514**	$ 331,514
Comprising all the issued common shares and 26,521 preferred shares of Domco		
Coal mining inventories and properties	—	1,541,204
	$ 331,514	$1,872,718

On March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties of Industries. On December 18, 1972 Domco and Industries received compensation, and accrued interest thereon, for the assets expropriated.

Formal proceedings have been commenced to appoint a liquidator for the purpose of winding up the affairs of Domco and distributing its assets. Based on unaudited financial information, at December 31, 1972 Industries' investment in the common shares had no value and the investment in preferred shares had a book value of approximately $995,000. The amount to be distributed in respect of the preferred shares cannot be established until Domco's liabilities are settled, the liquidation proceedings completed, and the costs of winding up paid.

4. Notes Due from Sidbec:
These are non-interest bearing notes due January 31, 1974 received from Sidbec, a corporation owned by the Province of Quebec, on sale by the Company, in 1968, of its shareholdings in Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited).

5. Bank Advances:
Bank advances at December 31, 1972 include bank advances to Industries of $519,902 (1971 – $2,187,383) secured by a general assignment of its

accounts receivable and an assignment of its inventories.

6. Long Term Debt:

	1972	1971
Canadian General Transit Company, Limited (55%-owned) –		
Equipment Trust Certificates 4¼% – 6¾% due 1973 – 1980	$ 1,844,000	$ 2,156,000
First Mortage Serial and Sinking Fund Equipment Notes 5% – 9% due 1973 – 1989 (U.S. $15,425,000)	16,130,523	17,504,280
6% – 10¼% due 1973 – 1991	17,480,000	18,595,000
	35,454,523	38,255,280
Less – Due within one year included in current liabilities	2,485,547	2,492,936
	32,968,976	35,762,344
Orenda Limited (60%-owned) –		
Income Debentures due December 1, 1975	7,950,000	13,950,000
Less – Payable to Hawker Siddeley Canada Ltd. and eliminated on consolidation	4,787,000	8,400,000
	3,163,000	5,550,000
	$36,131,976	$41,312,344

The income debentures of Orenda Limited bear interest, not exceeding available annual earnings, at a rate equal to the minimum commercial lending rate from time to time offered by a chartered bank plus 2% per annum.

For Canadian General Transit Company, Limited and Orenda Limited, the combined working capital and the combined investment in fixed assets, after deducting accumulated depreciation, amounted to $5,992,771 and $75,907,416 respectively, at December 31, 1972.

7. Pensions:
The present value of past service pension obligations is approximately $9,400,000. Settlement of these obligations will result in annual charges to the provision for unfunded pensions set aside for that purpose and in charges to operations varying between $400,000 and $600,000 annually for the next eighteen years. During 1972 $399,654 was charged to the provision for unfunded pensions and $256,463 was charged to operations in respect of past service pension obligations.

8. Preferred and Common Shares:

Preferred shares of the par value of $100 each issuable in series –	
Authorized – 250,000 shares	
Issued – 240,000 5¾% cumulative redeemable shares	
Outstanding – 140,000 shares	$14,000,000
Common shares without nominal or par value –	
Authorized – 10,000,000 shares	
Issued – 8,117,341 shares	54,279,748
	$68,279,748

The preferred shares are redeemable at the option of the Company at $105 per share.

Options to subscribe for unissued common shares were outstanding at December 31, 1972 for 25,000 shares at $3.35 per share expiring 1979 and for 109,750 shares at prices from $6.00 to $6.50 per share expiring 1974 to 1976. Of the foregoing, 58,000 shares are optioned to officers and directors. Directors who are not officers of the Company or its subsidiaries have not been granted options.

9. Income Taxes:
At December 31, 1972 the Company and subsidiaries had losses available to reduce future income tax provisions by approximately $1,900,000.

10. Contingent Liabilities:
The Company and a subsidiary are contingently liable for trade notes discounted in the approximate amount of $6,800,000.

11. Remuneration of Directors and Officers:
For the year 1972 the remuneration of six directors amounted to $25,558 (1971 – $25,759) and of ten officers and one past officer amounted to $384,385 (1971 – $391,771). Six directors received no remuneration as directors. Five officers are also directors.

Divisions and Subsidiaries:

Divisions
Canadian Car Division, Thunder Bay, Ont.
Canadian Car (Pacific) Division, Vancouver, B.C.
Canadian Steel Foundries Division, Montreal, Que.
Canadian Steel Wheel Division, Montreal, Que.

Subsidiaries
Can-Car, Inc., Atlanta, Ga., Alexandria, La., New Bern, N.C., McComb, Miss., U.S.A. (100%)*
 Chip-N-Saw, Inc., Atlanta, Ga., Eugene, Or., U.S.A.
 The Dosco Corporation, Pittsburgh, Penn., U.S.A.
Canadian Car Pte. Limited, Singapore (100%)*
Chip-N-Saw A/S., Naestved, Denmark (100%)*
Hawker Industries Limited, Toronto, Ont. (99%)*
 Canadian Bridge Division, Windsor, Ont.
 Trenton Works Division, Trenton, N.S.
 Halifax Shipyards Division, Halifax, N.S.
 Dosco Overseas Engineering Limited, Aylesbury, England
  Hollybank Engineering Company Limited, Aylesbury, England
Orenda Limited, Mississauga, Ont. (60%)*
 Orenda Engines Inc., Buffalo, N.Y., U.S.A.
 Orenda (International) Limited, Mississauga, Ont.
Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont. Moose Jaw, Sask., Red Deer, Alta. (55%)*

**percentage control by Hawker Siddeley Canada Ltd.*

Divisions and Subsidiaries Engaged Mainly in Producing:

Equipment for the transportation industry

Canadian Car Division
Canadian Steel Wheel Division
Can-Car, Inc.
Canadian Car Pte. Limited
Trenton Works Division
Canadian General Transit Company, Limited

Log skidders and other woodland equipment; containers; container chassis; highway trailers; railway axles; railway and industrial wheels; railway freight and tank cars; industrial and mine cars; railway passenger cars (subway, commuter and mainline); railway tank and hopper car leasing; liquid storage terminals; cranes; forgings; storage and pressure tanks.

Gas turbine power equipment and associated services for the oil, gas and aircraft industries

Orenda Limited and Subsidiaries

Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air conditioning; aircraft gas turbines and components; computer services; components for nuclear power applications; engineering, design, laboratory testing and graphic services.

Other general engineering and services

Canadian Car (Pacific) Division
Canadian Steel Foundries Division
Chip-N-Saw A/S
Chip-N-Saw, Inc.
Canadian Bridge Division
Halifax Shipyards Division
Dosco Overseas Engineering Limited
Hollybank Engineering Company Limited
The Dosco Corporation

Sawmill and chipping equipment; castings; trackwork; transmission towers and poles; masts; substations; naval and merchant ship-building and repair; offshore drilling vessel construction; mining equipment.

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Hawker Siddeley Canada LTD.

Semi-annual report for period ended June 30, 1972

To the Shareholders:

Submitted herewith are the unaudited consolidated statements of income and source and application of working capital for the first half of 1972 compared with the same period in 1971.

Sales

The growth in consolidated net sales during this year's first quarter has continued and at the end of the first half-year sales were $99.9 million being an improvement of $22.8 million over the same period last year. Volume improvements have been recorded in all operations with the exception of Hollybank Engineering Company Limited which experienced a temporary disruption of sales owing to a strike in the United Kingdom coal mining industry.

Income From Operations Before Income Taxes

Income from operations before income taxes and the interest of minority shareholders in the income of subsidiaries was $3,891,031 compared with $1,219,576 in the same period last year. This reflects better or comparable results in the operating units with the exception of the Canadian Car Division, Thunder Bay, Ontario, where results have been adversely affected by production problems experienced on a contract for rapid transit cars.

Provision for Income Taxes

Since corporate income cannot be consolidated for Canadian income tax purposes, a disproportionate provision for current taxes arises in the current half-year due to the improved results in the subsidiary companies whereas the results of the parent company have been depressed by the performance at the Canadian Car Division, Thunder Bay.

Net Income

Income before an extraordinary item for taxes not required amounted to $779,577 (1971: $840,487). Income after the said extraordinary item amounted to $1,059,980 for the six months in comparison with $1,287,487 in 1971.

Earnings Per Share and Dividends

Earnings per common share before extraordinary items were 4.6 cents this year (1971: 5.4 cents). After extraordinary items earnings per common share amounted to 8.1 cents (1971: 10.9 cents). During the six months this year the Company has paid regular quarterly dividends of $1.4375 per share on its outstanding preferred shares and a dividend of 7 cents per share on its common shares to shareholders of record on June 12, 1972.

Comments

Canadian Steel Wheel Limited became a wholly-owned subsidiary on June 22, 1972 when the Company purchased the 50% shareholding not previously owned. Following this acquisition and taking account of improving sales volume in the other units, prospects for earnings in the second half of 1972 appear favourable in comparison with the same period in 1971.

R. S. FAULKNER
President and Chief Executive Officer.
Toronto, Ontario,
August 17, 1972.

Consolidated statement of income

	First Half	
	1972	1971
Consolidated net sales	$ 99,930,991	$ 77,146,154
Income from operations before items shown below	$ 9,135,843	$ 6,574,373
Income from investments	694,843	393,538
	9,830,686	6,967,911
Deduct:		
Interest on bank advances	604,272	481,661
Interest and amortization of costs on long term debt	1,419,253	1,554,739
Provision for depreciation	3,916,130	3,711,935
	5,939,655	5,748,335
Income from operations before income taxes	3,891,031	1,219,576
Income taxes	2,732,000	448,000
	1,159,031	771,576
Interest of minority shareholders in income (loss) of subsidiaries	379,454	(68,911)
Income before extraordinary item for taxes	779,577	840,487
Income tax provisions not required by reason of losses carried forward from prior years (after minority interest of $597 in 1972)	280,403	447,000
Net income for the period	$ 1,059,980	$ 1,287,487
Earnings per common share —		
before extraordinary item for taxes	4.6 cents	5.4 cents
after extraordinary item for taxes	8.1 cents	10.9 cents

Note:

Interim statements are not audited and are subject to year end adjustments.

Consolidated statement of source and application of working capital

	First Half 1972	First Half 1971
Source:		
Net income for the period	$ 1,059,980	$ 1,287,487
Non-cash items included in determination of net income —		
Depreciation	3,916,130	3,711,935
Amortization of costs of long term debt	9,341	10,471
Deferred income taxes	1,277,731	(796,244)
Income (loss) of subsidiaries attributable to minority shareholders	380,051	(68,911)
Undistributed net earnings of associated company	—	(16,463)
Funds provided from operations	6,643,233	4,128,275
Fixed asset disposals	583,644	740,028
(Increase) decrease in mortgages and other investments	(702)	475,260
	7,226,175	5,343,563
Application:		
Additions to fixed assets	3,195,776	4,646,888
Reduction in long term debt	3,306,538	1,279,141
Reduction in provision for unfunded pensions	204,970	212,388
Dividends paid —		
To holders of Hawker Siddeley Canada Ltd.		
Preferred shares	402,512	1,207,511
Common shares	568,214	—
To minority shareholders of subsidiaries	227,250	227,250
Purchase of shares in partly owned subsidiary	5,600	100
Reduction in working capital on purchase of subsidiary	2,670,112	—
Charges to provision for special costs and losses	—	128,555
	10,580,972	7,701,833
Decrease in working capital	3,354,797	2,358,270
Working capital at the beginning of period	32,536,036	31,422,638
Working capital at end of period	$ 29,181,239	$ 29,064,368

Note:

Interim statements are not audited and are subject to year end adjustments.

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